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## Conference Call Transcript

**AEGON - Q1 2010 AEGON N.V. Earnings Conference Call**

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## PRESENTATION

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**Operator**

Ladies and gentlemen, welcome to the AEGON first quarter 2010 results and embedded value 2009 conference call for analysts and investors, on Wednesday, 12th of May 2010. Throughout today's presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. (Operator Instructions).

I'll now hand the conference over to Mr. Jan Nooitgedagt.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Good afternoon, ladies and gentlemen. Thank you for joining us for this discussion of AEGON's first-quarter results, as well as embedded value for 2009.

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Joining me today are Melanie Puri, our chief actuary; Darryl Button, the CFO of our operations in the Americas; Eric Goodman, head of our general account investment portfolio; and Michiel van Katwijk, Executive Vice President.

We realize it's a very busy day for you, so we will try to keep the presentation brief to allow enough time for your questions.

Before getting to the presentation, let me just remind you to take a moment to review our disclaimer on forward-looking statements, which is at the end of this presentation.

Let me share with you what we believe are the clear highlights of the quarter. AEGON posted a strong set of results during what continues to be an uncertain economic environment.

Underlying earnings have clearly improved compared with last year, supported by improved financial markets and a broad range of cost saving measures.

New life sales, although somewhat lower, were robust, especially in key areas such as pensions.

We have been able to maintain our strong excess capital position, which we believe is both necessary and prudent given the challenges of the current environment.

At the same time, we remain focused on implementing our strategy and delivering on the strategic priorities we have identified.

As you can see on slide three, the strong first-quarter results are evidence of the continued successful execution of our strategy.

Underlying earnings continued their upward trend, benefiting from increased revenue generating investments, cost savings measures, and improved financial markets.

Sales continued to be robust, though somewhat affected by a decrease in sales of intermediate annuities in the UK following a decision to reprice those products.

Growth deposits, excluding the runoff businesses, increased to EUR7.8 billion. This increase was driven mainly by US pensions and third-party asset management. It has offset the significant decline of almost EUR2 billion in fixed annuity deposits, which we have been managing lower.

Revenue generating investments totaled EUR388 billion, an increase of 7% compared with year-end 2009. This increase was due primarily to a strengthening of the US dollar against the euro and improvements in the market value of both equities and bonds.

During the first quarter we made further progress in areas that are central to our strategic objectives. Let me highlight a few items.

I am pleased that we have been able to secure a license to begin operations in the province of Hubei. With this ninth license in China, we now cover an area with more than 450 million inhabitants, or more than 50% of GDP in this fast-growing market for life insurance and pensions.

Our operating expenses declined 4% as a result of the cost saving measures we are continuing to pursue. As we had made clear, controlling costs continues to be a key focus point for AEGON.

We are also pleased that our enterprise risk management framework has been upgraded to strong by Standard & Poor's. This reflects the significant progress we have made in developing a risk management framework and the fact that this framework is now fully embedded in our business.

As you're well aware, we are engaged in the process of obtaining the European Commission's final consent to the terms related to AEGON's participation in the capital support program of the Dutch government at the end of 2008. We are not in a position to speculate about the timing or final outcome of this process, nor to discuss any details relating to the process underway.

In line with our strategy to allocate more capital for higher growth and higher return business, we have been able to increase our sales in pensions and third-party asset management. At the same time we have also reduced our sales in fixed annuities in the US and immediate annuities in the UK.

Higher new life sales in the Americas and Central and Eastern Europe were more than offset by decreased sales in the United Kingdom and Spain.

Gross deposits, excluding the runoff businesses, rose 3% compared with the first quarter last year.

In the Americas, the significant decline in fixed annuity deposits was almost completely offset by increases in variable annuity, retail mutual funds, and pension deposits.

Excluding the runoff businesses, all country units recorded net deposits totaling EUR741 million. This continues the trends of positive net deposits in 2008 and 2009.

In the US we have been able to add a major distributor of retirement products to our already broad network, further supporting our growth in pensions in this key area.

AEGON's value of new business declined to EUR146 million as a result of the change in business mix, as I mentioned earlier. Higher VNB from the Netherlands and variable annuities in Europe was more than offset by decreases in the United Kingdom, the Americas and Spain. AEGON's internal rate of return on new business increased to 19% due to improvements in both the Americas and the Netherlands.

As you can see on slide six, I am pleased that all our country units once more reported solid underlying earnings.

Underlying earnings in the Americas totaled \$524 million, compared with a \$189 million loss a year earlier. A recovery in equity markets, higher account balances, and investment income led to improved results.

The Netherlands achieved good underlying results as operating expenses decreased and investment income rose.

In the UK, earnings were up compared with the first quarter of 2009, benefiting from improved financial markets and growth in the business, despite higher regulatory costs.

Earnings from new markets increased as a result of improved earnings in most units, as well as earnings from our new global asset management organization, included in this segment for the first time.

I would like to say a word or two about operational excellence and how we regard this as contributing to the underlying earnings.

In the end, our business is only as good as the quality of service we provide. Particularly in today's uncertain environment, the company that achieves the highest service level wins. At AEGON we differentiate ourselves by competing on customer service and quality of products. Consequently we are committed to making the investments necessary to further increase service levels and improve our proposition to the customer. During the past year this focus enabled us not only to retain existing customers but attract new ones, both in our main markets and in our new, developing markets.

We are also looking at how best to strengthen the AEGON and Transamerica brands. Measuring our brand value is an important tool in managing our reputation -- something that is currently underway. The fact is, customers are attracted to strong brands and of course what those brands stand for.

On the cost side, we are also looking at how we can achieve further efficiencies, although benchmark studies clearly confirm that AEGON is already a cost-efficient provider. At the same time we will need to invest in our web capabilities, which in the end will lower distribution costs and enable us to better communicate directly with the end consumer.

There are further [efficiencies] we have identified, examples of which include reducing the number of administration platforms, reducing processing time, and improving productivity of employees across the board.

In the first quarter we managed to further reduce our operating expenses by 4% compared with last year. Going forward, continued focus on cost control will be key.

In addition to the strong underlying earnings -- on slide eight -- you can see that there were three other drivers of net income. Realized gains on investments were the result of bond sales in the Netherlands and the US, driven by asset and liability management. Impairments amounted to

EUR150 million and mainly had to do with US housing related assets. And lastly, earnings from the runoff businesses were in line with our expectations.

Net impairments to our investment portfolio showed consecutive improvement, continuing their downward trend. They are now at their lowest level in seven quarters, though still above AEGON's long-term expectations. Included are EUR43 million of impairments related to structured assets [writ] by US-based financial services provider Ambac.

At least for the time being, we continue to anticipate that impairments will remain at elevated levels compared with our long-term efforts expectation.

On slide 10, the result of our runoff businesses is in line with our expectations, as I indicated just a moment ago. The earnings of the spread based business consist of spread income and losses from the amortization of unrealized losses related to the internal asset transfer. The spread earnings declined as account balances continue to run off, and cash balances have increased. The amortization of the unrealized losses decreased somewhat in the first quarter and is expected to decrease further, which is in line with previous guidance.

The spread based balances are running off as projected and now stand at [\$18.7] billion.

As I indicated earlier, we have maintained our strong excess capital position. Earnings contribution and capital preservation measures in this quarter were offset by higher capital requirements. The capital preservation in the quarter was substantially lower than in previous quarters.

Excess capital above AA capital adequacy requirements amounted to EUR3.7 billion. Our IGD capital surplus increased from EUR6.7 billion in the fourth quarter of 2009 to EUR7 billion in the first quarter. This is equivalent to a solvency ratio of 205%.

Let me reiterate. Within the current uncertain environment, we aim to maintain a substantial capital buffer.

If you look on slide 12 at our shareholders' equity, shareholders' equity improved significantly during the quarter and now amounts to EUR14.5 billion, or EUR7.28 per common share.

The improvement in shareholders' equity was mainly driven by the improvement in the revaluation reserves, the strengthening of the US dollar, and a positive contribution from net income. Our revaluation reserves improved considerably, from minus EUR1.7 billion to minus EUR0.5 billion at the end of the first quarter, mainly as a result of a continued narrowing of credit spreads.

In view of the recent developments in Europe, I want to take just a moment to update you on our limited exposure to peripheral European sovereigns. To put this in context, our general account at the end of the first quarter amounted to EUR142 billion. On this slide you can see AEGON's exposures to Portugal, Greece, Ireland, Italy and Spain. We feel that our exposure is appropriately sized in relation to our general account and is manageable.

Let me now touch briefly on a topic that is attracting a lot of attention these days. The topic is Solvency II. AEGON is well prepared for Solvency II. Over the past several years we have been actively involved in the development of Solvency II through the CRO and CFO forums.

Furthermore, since 2005 AEGON has adopted its own internal economic capital model. We have further confidence because these models have shown to be more conservative than QIS 4. Although a number of issues appear to be satisfactorily handled in QIS 5, also significant concerns remain. All in all, we are confident that the outcome will be satisfactory for both the industry as well as for AEGON.

Turning now to slide 15, to our embedded value results for 2009, our total embedded value per common share decreased to EUR9.65. This decline was due to an increase in common shares following our equity issuance in August last year and the higher market value of our own debt following lower credit spreads.

In line with our strategy to reduce the relative capital allocated to our US operations, this slide makes clear that we are generating more VNB outside the US. This is demonstrated by the fact that other countries, which only represent 8% of embedded value, already generate 16% of VNB.

The embedded value life insurance improved 2% to EUR23.3 billion, which I will discuss in more detail on the next slide. The 2% increase in the embedded value for AEGON's life insurance business benefited from significant new business and a positive performance of our in-force book.

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In-force performance was partly driven by favorable maintenance expenses as a result of our cost reduction measures. However, the in-force performance was negatively impacted by EUR0.9 billion due to the negative spread variance on our institutional spread based business. There was also a negative impact of EUR0.2 billion from the improved persistency of the US variable annuity portfolio, the result is the guarantees being in the money.

The positive operating return was partly offset by changes in economic assumptions -- a variance in long-term investment returns and negative currency impact, which of course primarily had to do with the weaker US dollar last year.

The long-term investment return variance was caused by the combined impacts of our hedge program and a significant decrease in the guarantee reserve in the Netherlands, as well as higher than expected impairments in 2009.

The change in economic assumptions primarily reflects a higher risk discount rate due to the increased risk free fixed interest return. Both the long-term investment return and the change in economic assumptions reflect the impact from capital markets on our 2009 embedded value.

If you now go to slide 17, the free surplus generated on the in-force, which includes earnings on in-force and the release of required surplus, amounts to EUR2 billion in 2009.

The 2009 result is lower than in 2008, largely due to the lower free surplus generated on the in-force in the Netherlands. This is the effect of its interest rate hedge program, which had a positive impact in 2008 and an equally negative impact in 2009.

Investment in new business decreased significantly, from EUR2.0 billion in 2008 to EUR1.5 billion in 2009. The key reasons for the lower investment in new business was management action taken to reduce production in the Americas and the UK, particularly in capital-intensive products such as fixed annuities.

But item capital movements include EUR0.4 billion of capital investors in 2009 in the life insurance operations from the holding. We made capital contributions to Canada and the United Kingdom. We also funded our Brazilian joint venture. In normal circumstances, we would expect our life insurance operations to generate capital and pay dividends to the Group.

In other, the main items that negatively impact free surplus in 2009 are one-offs. During 2009 there was a significant increase in required surplus in the UK for our annuity portfolio and the sale of our life operations in Taiwan.

Total free surplus were EUR2.4 billion at the end of 2009, which represents the excess capital in our operating units.

You will remember that we published an excess capital of EUR3.7 billion for December 31. Effectively this means that the remainder, approximate EUR1.3 billion, was held at the holding company.

I would like to remind you that taking into account a normal level of impairments, our normalized free cash flow generating capacity is between EUR1.0 billion and EUR1.2 billion.

All in all, we are pleased with these first-quarter results of 2010, as well as our continued strong capital position, and they confirm that our strategic priorities are the right ones.

Before we take your questions, let me remind you of our upcoming analyst and investor conference in June in London, and we also look forward to seeing you all there.

In the meantime, thank you for your attention, and we are now happy to take your questions.

## QUESTION AND ANSWER

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### Operator

Farquhar Murray, Autonomous Research.

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**Farquhar Murray - Autonomous Research - Analyst**

Just two questions if I may. Firstly, on excess capital, I appreciate obviously the delta in the quarter is not very large at all. But I just wondered if you could go through the bridging items and -- as you did in the previous quarter, specifically obviously kind of impairments and statutory earnings.

And then secondly, you discussed kind of higher capital requirements in this press release. I just wondered if you could give a magnitude around that and perhaps some color around what was driving that. Thanks.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Thank you for your questions. Let me tell you that indeed the excess capital has not changed much compared to the beginning of the quarter and the end of the quarter. And I can easily explain to you that we have of course ended the earnings to the excess capital, the statutory earnings, and we have also deducted the increase of required -- or the addition in required capital. And a good example was, for instance, the Netherlands, where 50% of the value in force is also part of excess capital, and the value in force has declined in the first quarter, which has had an impact on our excess capital.

But I think in general there is really -- we had a minimum impact this quarter on our excess capital, due to the fact that we also had the minimum capital preservation measures during the quarter.

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**Farquhar Murray - Autonomous Research - Analyst**

Just to dig into that, in terms of the cost preservation goals, you're up 0.1 billion, and can we take it the re-risking strategy was about the same number? I mean, how much was the re-risking aspect we saw in the quarter?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

I think it was -- to be fully aligned is that it was really a minimum amount, not really meaningful. So it did not have any impact on the excess capital for the first quarter.

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**Farquhar Murray - Autonomous Research - Analyst**

Okay. And on other potentially small numbers, what was the statutory earnings?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Statutory earnings -- I don't know exactly, but we are talking -- can we give you that number if you ask the question to our IR department?

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**Farquhar Murray - Autonomous Research - Analyst**

Yes, certainly. I'll take it there. Just on the required capital, any color? Other than just the Dutch in-force?

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**Michiel van Katwijk - AEGON N.V. - EVP**

That was clearly the largest effect. If you look at the (inaudible) value reports, you can actually see the decline in the value of in-force in the Dutch business, and normally S&P gives 50% credit to new value of in-force, and I think that came down by somewhere between 500 million and 600 million. So that has taken out by itself -- has taken out 250, or slightly more than that in terms of capital for the business then.

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**Farquhar Murray - Autonomous Research - Analyst**

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Can I just clarify that that 250 is 2009, not the first quarter of this year?

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**Michiel van Katwijk - AEGON N.V. - EVP**

Yes. So that is 2009, but we have to update our numbers after we produce our 2009 embedded value numbers. So yes.

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**Farquhar Murray - Autonomous Research - Analyst**

I'll follow up with IR later. Thanks.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

I think this -- was not the second question part of the first question, the higher capital requirements due to (multiple speakers)

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**Michiel van Katwijk - AEGON N.V. - EVP**

Yes.

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**Operator**

Duncan Russell, JPMorgan.

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**Duncan Russell - JPMorgan - Analyst**

First question was, can you just give a bit more color on the fixed annuities in the US, and why you've pulled back in that market so aggressively, and why you feel the need to reprice, what's changed over the last couple of quarters.

Second question I had was could you give a bit more color on -- within the embedded value, the institutional business, the institutional embedded value in the US, how much of that embedded value is the capital and how much is the in-force. I'm getting negative. Thanks.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Thank you Duncan for your question. You're right, the fixed annuities had a big impact on our sales if you compare Q1 this year with last year, and also our VNB. I would like to give that question to Darryl to give some color on that. And the last question also to Darryl, about the embedded value.

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

Yes, I'll give it a shot. The first question was on fixed annuities, why we pulled back. Well, the short answer is we don't find the pricing overly attractive in the marketplace. With low yields and where the minimum guarantees are in the industry, it's not that attractive of an economically priced product. So we certainly do not need the liquidity in-house. We've got, as I've said several times, we've got the institutional runoff fully funded. So we're not in -- we have no need for the liquidity, and we don't find the economics attractive, so we are significantly pulled back there. I think intentionally so.

And unless something happens either to the yield curve or the competitive environment in the near term, I don't see that changing here in the near term.

And the embedded value, I'm not sure if I got the full gist of your question. I assume it was the impact of the institutional spread runoff running through embedded value, which did create quite a sizable spread loss in the embedded value. And that's the bulk of -- I think it's 1 billion -- in the 1.2 billion that you can see on table 14 of the embedded value report.



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That essentially is the shortening of the institutional liabilities that happened in the heart of the crisis. We had about \$10 billion of institutional liabilities that shortened up significantly related primarily to -- primarily to two programs that shortened from what used to be somewhat of a perpetual nature into a one-year maturity. We were faced with one of two choices, selling the assets backing those, or using cash and liquidity from elsewhere in the organization. We did the latter, and so we used retail cash to fund that payout, but that caused a significant spread compression.

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**Duncan Russell - JPMorgan - Analyst**

Actually what I was looking for was the 598 US dollar institutional guaranteed product embedded value. Could you just give me the net worth and the in-force value, how that 598 splits.

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**Melanie Puri - AEGON N.V. - Chief Actuary**

I don't have it with me, but we can give it to you later. We'll give it to you via IR.

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**Duncan Russell - JPMorgan - Analyst**

Okay. Thanks.

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

Great. I answered the wrong question.

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**Duncan Russell - JPMorgan - Analyst**

That's all right. Thanks.

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**Operator**

Jan Willem Weidema, Fortis.

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**Jan Willem Weidema - Fortis - Analyst**

A few questions from my end. One, the tax effect that we saw in Q1 from internal reinsurance, do you expect that to continue further on this year? Second, on capital requirements, can you give us an update on where -- what you think is an adequate capital buffer at the moment? And with regard to re-risking, what are you expecting there for the remainder of this year in your investment portfolio?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Thank you for your questions. Let me start with answering your question about the tax. As you have seen also in 2009 compared with 2008, we have been impacted by the fact -- by the -- by a reinsurance contract and that the way the tax is calculated in Ireland is different from the US. It depends heavily on the volatility in the market.

But what you've seen now in Q1 is almost the remaining part of the whole impact, which we have taken a huge plus in 2008, and which is now almost reversed again. And I think it depends on the credit spread going forward in that -- if tax will be impacted. But for the rest we had a normal quarter, a normal tax impact, apart from the reinsurance contract.

The question about the excess capital, yes, we have said I think also in the past, which we continue to say is that under these financial and economic circumstances, we like to have a substantial buffer, which we have at the end of this quarter.

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And to the future, it is of course difficult to say, but we still feel that the economic environment is unstable. If you look at unemployment rates in different countries and financial markets. Also huge, yes, issues in difficult markets. And I think that we feel confident with an excess capital, which we have now, 3.7 billion.

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**Jan Willem Weidema - Fortis - Analyst**

In the past you've said 1.5, 2.0 for normal circumstances, which would be elevated in these circumstances. Is that something to, let's say, around 2.5 we should think up for the short term?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

I would like to wait first and seeing what -- when the markets are in normal circumstances then and make a calculation at that point. I think for the moment we feel confident with the capital buffer we have.

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**Jan Willem Weidema - Fortis - Analyst**

Okay.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

I think the -- what was your last question? It was about re-risking? What I would like to say is that you see also in our quarter the change we make in fixed annuities and variable annuities. But I think it's good that Darryl gives more color on this question.

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

Yes, I guess I would say we really don't have an active re-risking program going in the US. We are investing cash, but a lot of that investing is putting cash to work that's coming off of normal cash flow asset maturities off the current book. So there is no what I would say active re-risking program, and in fact actually as cash flow is coming due off of the retail operations, we are putting that into a very high-quality, high-grade investment portfolio. So there is no material credit re-risking strategy going on in the US.

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**Jan Willem Weidema - Fortis - Analyst**

Okay, thank you.

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**Operator**

Nick Holmes, Nomura.

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**Nick Holmes - Nomura - Analyst**

I had a couple of questions on underlying earnings. The first one is, can you explain a little bit more how you think we should look at the realized gains on investments at 126 million in Q1, that's a pretty big number. And I ask this question because presumably the more gains you take, the less investment income you have for your underlying earnings. So I'd be interested in your thoughts on the interaction between the two.

Then secondly, you've redefined your underlying earnings to exclude the runoff business. And I wondered, are you thinking of resetting the target to reflect that? Thank you very much.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

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Thank you for your questions. The first question about realizing gains, let me make clear that we have realized gains on bonds in the US and in the Netherlands. But -- and the gains we realized are the result of our asset and liability management, which basically means that we have matched our investments and our liabilities. And this is just the consequence of managing our business, and as such, there is not a desire to realize gains. If we're realizing gains, it was just the result of our asset and liability management program.

The runoff business and the question about what I understand is we have I think informed most of you also about the change in our reporting format and that we have taken the runoff, the results of the runoff, especially from IMD, separate from our underlying earnings. And what I explained also is that what the impact is of the runoff line and the differences with underlying earnings. I don't fully understand how you -- you want to compare this with the past, what we have said about the level of our underlying earnings; is that the question?

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**Nick Holmes - Nomura - Analyst**

Yes, just because the runoff business was previously included in that target.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Yes. We have said that in the past I think with a dollar rate of 1.30 that it would be 450 to 500. And I think if you make that calculation now with the runoff business in the new format, the runoff business separated, that you would take a new run rate of between EUR500 million and EUR550 million. That's based then on a dollar rate of 1.30.

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**Nick Holmes - Nomura - Analyst**

So that is your guidance. Yes. Okay, that's pretty clear. Thank you very much.

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**Operator**

Chris Hitchings, KBW.

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**Chris Hitchings - KBW - Analyst**

A couple of things. Can you take me through a little bit on the UK annuity repricing? You talked about how this repricing had improved your IRR in the UK, and yet clearly the sales and sales volume have come down. Presumably this means capital has been released from the UK in this. Can you tell us how much and what you've done with it?

Secondly on capital in the US, can you give us an update on where the US RBC ratio is now?

Thirdly, you continue to talk about having \$3.7 billion in excess of S&P's requirement. But S&P I think continues to put you on watch negative. So -- or negative outlook -- sorry. So clearly S&P don't think you've got \$3.7 billion of excess capital. Could you tell me what S&P have told you about what you would need to have achieved, and where, in order for them to share your view that you have \$3.7 billion of excess capital? Thanks.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Thank you Chris for your questions. First, about the UK immediate annuities, as you know, these annuities are very sensitive for pricing. We have repriced our products, which has also a huge impact on our sales of (technical difficulty) [immediate] entities in the UK.

I don't understand your remark about IRR. If you look in our press release, the internal rate of return in the UK on new business was 11%. We have -- yes, the repricing had an impact on our sales, that's quite clear. But that does not mean that our IRR was (multiple speakers)

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**Chris Hitchings - KBW - Analyst**

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No, I'm looking -- well sorry, what I meant was that presumably if you are removing -- if you're stopping selling these and the annual -- on de-risking the investment portfolio, that was presumably because you are going to release capital. You are clearly doing this in order to improve the IRR, that profitability of your business. And I'm wondering, when will that capital be released? And what will the effect on IRR be then?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

What we have said, also in our press release, that we have adopted a more conservative investment strategy in the UK, which also had an impact on our VNB. And one of the reasons is, is that we have invested in gilts instead of corporate bonds, and that had an impact on our VNB, and what -- that's also one of the explanations why the VNB is much lower.

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**Chris Hitchings - KBW - Analyst**

But is capital not released why that de-risking of the investment portfolio?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Well, there is an interesting calculation of capital requirement in the UK, you know, that what we are doing at the moment is we have changed the risk profile of the investment portfolio in the UK, but that does not have an immediate impact on the capital requirement in the UK.

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**Michiel van Katwijk - AEGON N.V. - EVP**

To add on that, obviously if we sell less immediate annuities, it will have less of an effect on the [strength], that is absolutely correct. But it's not that this immediately is leading to a huge (inaudible - background noise) in capital that is released.

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**Melanie Puri - AEGON N.V. - Chief Actuary**

And also I would add as well, as the markets improve in the UK, then that increases the (technical difficulty) capital requirements in the UK under Pillar 1. So as the equity markets improve, for example, on the unitized pension business, that just increases the required capital.

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**Chris Hitchings - KBW - Analyst**

Well, I'm just still trying to get a handle. Perhaps I'm just being unbelievably stupid here compared with everyone else on the call, in which case, please tell me to shut up. But you have pulled out from business because you thought that it wasn't producing adequate returns, presumably, or risk-adjusted returns. And I'm wondering why such an action should result in a significant deterioration in your returns, unless the fact of the matter is, this business was not producing good returns anyway. It was an error.

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**Michiel van Katwijk - AEGON N.V. - EVP**

No, I don't think that that's the case, Chris.

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**Melanie Puri - AEGON N.V. - Chief Actuary**

No.

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**Michiel van Katwijk - AEGON N.V. - EVP**

I think that the main effect that you're seeing on the IRR on the new business that we are writing in the UK is driven by the fact that we have changed -- on new business we have changed the allocation for assets, and as you can imagine, margin on corporate bonds is much wider for -- there is a margin on corporate bonds relative to gilt, and that is affecting the returns.

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**Chris Hitchings - KBW - Analyst**

Okay then. Thank you. Yes, I'm obviously being very stupid on this.

And the other questions?

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

Chris, on the RBC ratio, as you know, it's an annual calc only, but I do estimate that at the end of the first quarter we are just over 400.

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**Chris Hitchings - KBW - Analyst**

Thank you. And on S&P?

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**Michiel van Katwijk - AEGON N.V. - EVP**

Yes. On S&P, Chris, I think S&P does not disagree with us that we have 3.7 billion of excess capital. I would just like to point out that they, in rating companies, are not just looking at what the capital position is, but they're looking at a whole range of numbers. They're looking at the prospects of the various markets, etc.

And as you may know, S&P still have -- on the majority of our markets have still a negative outlook. So for instance, the US life market has a negative outlook, and the UK market has a negative outlook, which is in part feeding into our negative outlook. And that is despite the fact that our ERM got upgraded to strong by S&P, so the negative outlook in a number of markets is driving effectively still our negative outlook -- as many of our competitors.

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**Chris Hitchings - KBW - Analyst**

But have S&P told you what you would need to do to get rid of your negative outlook? Other than obviously operate in markets which didn't have a negative outlook, which is fairly draconian, [however].

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**Michiel van Katwijk - AEGON N.V. - EVP**

No, they don't really say what we need (inaudible - background noise) negative outlook. They will point to a number of things, and if those things improve, then that will be positive for the rating. So for instance, an improvement in earnings, impairments going down, those kind of things would all be positive for the rating outlook.

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**Chris Hitchings - KBW - Analyst**

Thank you.

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**Operator**

Oliver Steel, Deutsche Bank.

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**Oliver Steel - Deutsche Bank - Analyst**

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Two questions. The first is that you say you released capital of 0.1 billion, and as you pointed out, that was a lower number than you have been producing for several quarters. So I was wondering if you could sort of talk about the pipeline of further capital releases or whether we should be building in lower number going forwards.

And then secondly on expenses, in your presentation you talked about needing to invest in your web capabilities. I was just wondering if you could talk through sort of what you need to do to get the next layer of costs down, and what sort of timetable are we looking for.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Thank you, Oliver, for your questions. The first question about the capital release of 0.1 billion in Q1, it was relatively low compared with the last 1.5 years. As you know, we are continuing in running off IMD business, which will have an impact on releasing capital in the coming quarters.

I think we have an -- we are looking at all kinds of opportunities to -- for efficiency of our capital, to make it more efficient. It's also I think realistic to assume that the majority of these measurements have -- we have behind us. Maybe Michiel -- but we are looking at more opportunities, but they are limited.

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**Michiel van Katwijk - AEGON N.V. - EVP**

Yes. I think, Oliver, one thing to keep in mind is that the more of these kind of initiatives we execute, the more of an impact they might have on earnings going forward. So we are trying to balance between releasing capital and maintaining an earnings profile that is consistent with what we have. And so we are trying to balance more between the actual need to create capital and the earnings impact that those actions might have. So it's realistic to expect lower numbers than in the past couple of years.

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**Oliver Steel - Deutsche Bank - Analyst**

Okay. And can you remind me of what the capital release would be from the IMD?

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

We've said about 800 million spread over two years, so it's about 400 million a year.

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**Oliver Steel - Deutsche Bank - Analyst**

And the question on expenses?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Yes. If you talk about expenses, we are pleased with the measurements we have taken, the impact it had on Q1, 4% lower than last year. In the meantime we are also investing in all kinds of capabilities also to get our whole infrastructure in order, investing in processing time, and also keeping in mind the customer, the end customer. I think that is in addition to our cost measurements. We also like to invest in innovation for our distribution channels.

But one of our goals is and continues to be -- is managing our costs at a level which is acceptable for us. And as I said earlier, the impact of the measurements taken earlier, that also resulted in a 4% lower cost in Q1.

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**Oliver Steel - Deutsche Bank - Analyst**

Thank you very much.

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**Operator**

William Elderkin, Citigroup.

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**William Elderkin - Citigroup - Analyst**

Most my questions have already been answered. Just one thing on the UK pensions business. Can you talk about the underlying earnings power there. I would have thought it would've been better than it was, given the uptick in markets and widening spreads over the first quarter. And is the number that we see there indicative of the likely earnings power over the rest of the year?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Yes, if you talk about the UK, I think you are right, that you might expect higher underlying earnings. But we have to take into account, especially if you compare this quarter with last quarter, the impact of moving asset management out of the results of the UK, which is now part of the new markets. That has an impact on underlying earnings. And you should also take into account that we had an increase in our expenses due to regulatory costs, which relates also for a part to the UK situation.

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**William Elderkin - Citigroup - Analyst**

Is the latter regulatory costing, is that a one-time effect, or will that continue to burden the result?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

It's always difficult to say in the future, but I think what we have done here, now is a one-time effect, yes.

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**William Elderkin - Citigroup - Analyst**

And roughly what was the effect of that in this first quarter?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

That is something I think we should -- can you follow up that with IR?

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**William Elderkin - Citigroup - Analyst**

Yes. Thank you.

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**Operator**

Johnny Vo, Goldman Sachs.

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**Johnny Vo - Goldman Sachs - Analyst**

Just a bit of a philosophical question. Given your support of Solvency II, when are we likely to see an MCEV reported for the Group?

Number two, just on a sort of realistic reserving basis, how would the underlying capital generation change for the Group?

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And just a third question, clearly in the UK market on immediate annuities it seems like a number of your players are reporting unlimited IRRs by actually investing in corporate bonds at the right time. Can you just sort of explain your rationale for moving to gilts now, when the spreads are very wide and positive? Thanks.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Your first question I think, for your question about Solvency II and MC figures, I think that we are -- we will definitely move to MCEV figures if Solvency II comes in place. We have now reported our embedded value -- traditional embedded value this year. We prepare ourselves for Solvency II, and due to the fact that we cannot do everything at once, we plan to give you the Market Consistent figures also, together with the Solvency II figures at that time, when it is applicable, probably in 2012.

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**Johnny Vo - Goldman Sachs - Analyst**

Okay.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

And a question about the -- I didn't fully understand the question about the UK. (multiple speakers) Yes. Well, that also of course has something to do with Solvency II in --

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**Melanie Puri - AEGON N.V. - Chief Actuary**

And reducing the credit risk on the balance sheet. I think we have a desire at the moment to reduce the amount of credit risk we have on the balance sheet. We saw what happened in the last couple of years when we had a lot of credit risk on the balance sheet, and you can see the impact of the IMD numbers running through the results in 2008 and 2009. Really we've taken this action as part of that strategy to reduce some of the credit risk that we have (inaudible) for the Group.

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**Johnny Vo - Goldman Sachs - Analyst**

And would realistic reserving change the cash flow dynamics of the Group dramatically? Or not?

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**Darryl Button - AEGON N.V. - SVP and CFO of AEGON USA**

In the US it would have a dramatic change on spread products. And that's why we kind of indicated earlier that the Solvency II framework is not that friendly to spread products, it would upfront some losses there and change the distributable earning pattern over time.

Outside of that, I think a lot of the protection products and fee-based products, the market consistent approach will follow a release from risk, so as we release from economic risk, there will be economic margins that will come in, and that will form the new cash flow generation pattern.

So it's a different answer by product.

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**Johnny Vo - Goldman Sachs - Analyst**

Yes. Okay. Fair enough. Thanks.

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**Operator**

Albert Ploegh, ING Commercial Banking.



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**Albert Ploegh** - *ING Commercial Banking - Analyst*

A few questions from my side. Most have been answered. One is on the impairment line, which of course came in again pretty low in the quarter. You were at elevated levels clearly not applicable anymore, but what are your expectations basically in the short term, especially as also it somewhat was related to [MBack] as well, so you basically closed with a run rate on [110] million.

Second question is on the macro hedge in the US, in the first quarter volatility was of course very low, so did you take there any opportunities maybe to optimize the hedge, or any changes there implemented that were maybe worthwhile to mention.

And the third question is on the embedded value report, the movements in the Netherlands on the long-term investment returns, the earnings there, just mention basically the impact of the hedge program, and also the decrease in the guarantee reserve. Is it possible to get any feeling or any guidance on sensitivity there, what would trigger basically also taking that number down again? That would also be helpful.

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**Jan Nooitgedagt** - *AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.*

Thank you, Albert, for your questions. I think we will give you an answer in the order you asked the questions, and the first question about the impairment, I think the best person to give an answer on that is Eric Goodman.

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**Eric Goodman** - *AEGON N.V. - CEO of AEGON USA Investments*

You mentioned that the trends have been favorable in the impairment line, and I think we -- our base case is that the trend will probably continue somewhat. The composition of those impairments has been -- has shown that the corporate credit impairments have declined most rapidly, that the structured assets, primarily the residential mortgage-backed's, have declined from their peak of early 2009 but are still producing a reasonable amount of impairments each quarter. And that may take some further improvement in the housing market to see a dramatic reduction, but when we look at the overall profile, we think that there is a possibility for some additional reductions over the coming quarters.

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**Jan Nooitgedagt** - *AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.*

Then your question about the macro hedge, we are indeed looking at all kinds of alternatives for the macro hedge.

Darryl, maybe you can give some color on that going forward.

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**Darryl Button** - *AEGON N.V. - SVP and CFO of AEGON USA*

Yes. The short answer is, no change to the macro hedge. It's exactly the same program we've had in place. I think we communicated before, there was -- the hedge would mature in June. That's true. We are actually going to extend the same hedge into the third quarter.

We are still looking at -- and we've done some work, we've started some work with a third-party to possibly change the nature of the hedge and potentially even upsize the hedge. But we've pushed that off until the third quarter, so we will be rolling the exact same hedge forward.

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**Albert Ploegh** - *ING Commercial Banking - Analyst*

Okay.

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**Melanie Puri** - *AEGON N.V. - Chief Actuary*

And if I may (multiple speakers)

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**Jan Nooitgedagt** - *AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.*

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Yes.

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**Melanie Puri - AEGON N.V. - Chief Actuary**

Shall I pick up on the third question?

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

The last question about EV and the Netherlands, I think Melanie, if you would take it (multiple speakers)

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**Melanie Puri - AEGON N.V. - Chief Actuary**

I don't have any sensitivity numbers with me, but I just wanted to sort of explain the way this impact is working. Generally speaking you would expect that a release and a guarantee provision would increase the embedded value. But actually here, because we have the hedge program in place, essentially what we see is a reduction in the future profits, as you would expect. But we don't see the increase in free (technical difficulty) in the year that the guarantee provision goes down, so we do have a sort of decrease in provision, but it's matched also by a decrease in assets backing that provision.

In terms of sensitivity, I don't have sensitivity numbers, but you can see clearly that this has a significant impact on the results. If you go back to the 2008 results, this had a very significant positive impact on the embedded value. I was just looking back there at the 2008 results, the and variance from the long-term investment it turns out was around EUR1 billion. I think the vast majority of that was related to the increase in the guarantee provision at that point in time, combined with the hedge results.

And here the impact is around 0.8 billion, negative, as a result of markets improving, guarantees moving out, the money for the guarantee provision going down, but again combined, in this case, with a negative impact to the hedge.

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**Albert Ploegh - ING Commercial Banking - Analyst**

But the hedge is I think also unchanged there, so (multiple speakers)

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**Melanie Puri - AEGON N.V. - Chief Actuary**

Yes, the hedge is unchanged. We haven't changed anything in terms of the interest rate hedge.

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**Albert Ploegh - ING Commercial Banking - Analyst**

Okay, thank you.

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**Jan Nooitgedagt - AEGON N.V. - CFO and member of the Executive and Management Boards of AEGON N.V.**

Okay, thank you. This was the last question. Thank you very much, and I hope to see you all at our conference in June in London.

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**Operator**

Ladies and gentlemen, that completes today's conference call. Thank you for participating. You may now disconnect.

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